COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3971-03
Bill No.: Perfected HCS for HB 1305
Subject: Retirement - State; Retirement Systems and Benefits - General
Type: Original
Date: April 11, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

Officials from the **Missouri State Employees Retirement System (MOSERS)** assume the cost to implement the two mandatory continuing education requirements would be minimal (less than $20,000 annually). As it relates to education, MOSERS' trustees are presently provided with an educational manual regarding the roles and responsibilities of trustees immediately following appointment to the board. In addition, MOSERS' staff provides education training regarding the topics addressed in the legislation during annual board retreats. Trustees are also encouraged to obtain additional training at outside conferences and seminars held throughout the year.

Regarding ethics, the MOSERS board has adopted a governance policy that addresses a fiduciary code of conduct for members including provisions that prohibit self-dealing and acceptance of any gratuity, political contribution or compensation for the purpose of influencing action with respect to the retirement plan. Such actions are also subject to the penalties prescribed for bribery.

ASSUMPTION (continued)

Oversight assume any cost to implement the education requirements would be minimal and could be absorbed by the agency.

Officials from the **Department of Labor, Department of Conservation, Kansas City Firefighters Retirement System, Local Government Employees Retirement System** and **Public School Retirement System** would assume no fiscal impact to their agency.

Officials from the **County Employees Retirement System (CERF)** assume the proposal will generate additional costs for CERF to implement and execute the comprehensive board member education program. These costs will be in the nature of travel and per diem for board members, costs to develop the training programs, and for professional and education fees and materials.

Oversight assume any costs to implement the education requirements would be minimal and could be absorbed by the agency.

Officials from the **Transportation and Highway Patrol Employees Retirement System (MPERS)** assume Section 105.684 and 104.1095has the potential for a fiscal impact for MPERS. The funded status of MPERS was below 60% on June 30, 2005. Therefore, if an accelerated contribution schedule were to be prepared and implemented, there would be a fiscal impact depending upon the number of years to be used in the accelerated schedule.

HOUSE AMENDMENT #2

The **Joint Committee on Public Employee Retirement (JCPER)** has reviewed this proposal and has determined an actuarial study is not needed under the provisions of section 105.660, subdivision (5).

The provisions associated with the MPERS non-uniformed service purchase is estimated to cost the system approximately $20,049 per purchase with a total estimated cost of $70,000 to $100,000 annually, depending on utilization.

Oversight assumes there would be minimal fiscal impact to HTEHPRS due to the service buy-back and earnings fund contribution of the uniformed Patrol member.

Officials from the **Missouri Highway Patrol** assume the Department of Transportation will respond on their behalf.

ASSUMPTION (continued)

Officials with the **Highway Employees and Patrol Retirement System** assume the proposal would subsidize the creditable service by certain employees of the Missouri Department of Transportation and Civilian Patrol. The unfunded liability of the retirement system will increase, and at some point, cause an increase in the MoDOT and Patrol Contribution rate.

Section 106.691 as it currently exists, allows members to purchase non-federal public employment service. Undersection 105.691, the cost to purchase service is the full actuarial cost. However, the language contained in the proposal allows for the purchase of service at a flat subsidized rate. The subsidy that is build into this calculation results in the system receiving generally less than $.30 for every actual dollar of cost. A similar provision exists for employees covered by MOSERS in Section 104.344.) This provision also exists for Uniformed Patrol employees. The cost of purchasing this service is calculated using the base salary and contribution rate in effect on the date the member was first employed.

The interest expense is calculated at the rate of "simple interest" from the date of employment to the date of election to purchase.

It is anticipated the retirement system would subsidize the purchase cost by approximately $20,00 for each employee who would take advantage of this purchase.

At this point, the question becomes:

1. How many MoDOT and Civilian Patrol employees have this type of service, and how much service is eligible for purchase?

The retirement system has no way to determine how much service is available for purchase. In addition, even if they knew how much service was eligible for purchase, they would have no way to determine just how many people would purchase the additional service.

Therefore, at this time, there is no way for them to determine what impact passage of this proposal will have on the overall contribution rates. While they can say this proposal does absolutely have a cost to the system associated with the purchase of each piece of service, they do not have a way to estimate the total cost to the system. The only things that can be determined for certain are:

1. There is a cost to the system for each year of service purchased.
2. The more service purchased, the higher the cost to the system.
3. Over time, because this purchase increases the amount of the benefits paid, it will eventually increase the unfunded liability of the system.

ASSUMPTION (continued)

Annual Fiscal Impact: Since the law currently allows for the purchase of this service under section 105.691, to determine the fiscal impact to the system you must calculate the difference between purchasing the service under the existing law and the proposed law.

- Assume an employee has an initial starting salary of $635.00 per month. The contribution rate at the time of employment was 5.10%
- The calculation is for 24 months of service.

Cost to purchase service at the actuarially determined rate (105.691)	$22,681.40
Cost to purchase at rate proposed	$ 2,631.44
Difference to be subsidized by Retirement System	$20,049.96

Currently, there are approximately 8,100 MoDOT and Civilian Patrol members. If they assume that 1% (81) of these members have this type of service and ½ of those eligible actually purchase the service (40), their actuary has estimated the cost will increase contributions between $70,000 and $100,000 annually.

Obviously, the actual cost to the system could be higher or lower if their estimate of the number of people who have and purchased service is incorrect.

Oversight assumes there would be minimal fiscal impact to HTEHPRS due to the service buy-back and earnings fund contribution of the uniformed Patrol member.

Officials from the **Department of Transportation** assume the amount of service available for purchase is unknown. In addition, the number of eligible persons that would actually buy the service is unknown. Therefore, we cannot estimate a fiscal impact for the legislation, however, based on the estimated provided by the MoDOT and Patrol Employees' Retirement System, the negative impact would exceed $100,000.

Oversight assumes, as stated above, there would be minimal fiscal impact to HTEHPRS due to the service buyback and earnings fund contribution of the uniformed Patrol member.

HOUSE AMENDMENT #3

Officials from the **Department of Revenue** assume minimal fiscal savings to their agency.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This substitute changes the laws regarding several public employee retirement systems.

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM (LAGERS) Currently, a political subdivision cannot create a pension plan similar to LAGERS for its employees who are not police officers or firefighters unless it has an assessed valuation of $100 million or more. The substitute specifies that a political subdivision cannot create a pension plan similar to LAGERS for any employees unless it has an assessed valuation of $500 million or more.

After January 1, 2007, volunteer fire protection associations and fire protection districts must establish new pension plans under the provisions of Chapter 70, RSMo, unless the new plan is the result of consolidating the plans of two or more fire protection districts existing prior to January 1, 2006.

MISSOURI DEPARTMENT OF TRANSPORTATION AND HIGHWAY PATROL EMPLOYEES' RETIREMENT SYSTEM (MPERS)

If the actuary for MPERS determines that the funded ratio of the system is below 50% for three consecutive years, the plan will close to new members effective January 1 of the following year.

DESCRIPTION (continued)

GENERAL PROVISIONS

The substitute:

(1) Defines "defined benefit plan," "defined contribution plan," "funded ratio," and "lump sum benefit plan";

(2) Changes the contribution period, from 40 to 30 years, for which plans may not exceed unfunded accrued liabilities;

(3) Requires retirement systems to establish mandatory board member education programs regarding responsibilities, ethics, governance, plan design, administration of benefits, investments, legal liability, and actuarial principles. Board members will be required to attend at least two continuing education programs each year;

(4) Prohibits appointing authorities, board members, or employees from receiving a gain or profit from funds or transactions of the plan except benefits which are common to all members of the plan. If political contributions or compensation are accepted to influence the investment of system funds, the person will forfeit his or her office and be subject to penalties prescribed for bribery;

(5) Specifies that any trustee, employee, or plan participant convicted of a plan-related felony directly connected with his or her duties will be ineligible for retirement benefits;

(6) Prohibits, after August 28, 2006, plans with a fund ratio of less than 80% from providing additional benefits. Plans with a fund ratio greater than 80% can adopt benefit enhancements if the ratio does not decrease more than 10% or below 75%. The unfunded actuarial accrued liabilities associated with these benefit changes will be amortized over a period not to exceed 15 years; and

(7) Requires plans with a ratio of less than 60% to have an actuary prepare an accelerated contribution schedule based on a descending amortization period. If a plan's actuary determines that the ratio is below 50% for three consecutive years or the ratio is below 60% and the plan is not meeting 100% of the actuarially required contribution payment, the plan will be closed to new members effective January 1 of the following year.

DESCRIPTION (continued)

HOUSE AMENDMENT #2

Currently, a uniformed member of the State Highway Patrol may purchase up to four years of his or her prior creditable service as a nonfederal, full-time public employee as long as he or she is not receiving or eligible to receive credits or benefits from any other public plan for the service being purchased. This bill allows any member of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System to purchase the service.

The purchase of this service must be completed prior to retirement or termination of employment. If a member who purchased service dies prior to retirement, the surviving spouse can receive a refund of the amount contributed for the purchase if he or she is not eligible for survivor benefits.

HOUSE AMENDMENT #3

This portion of the proposal removes the requirement that the Department of Revenue maintain a branch office in the City of St. Louis.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Joint Committee on Public Employee Retirement
Missouri State Employees Retirement System
Department of Labor
Department of Conservation
Local Government Employees Retirement System
Public Schools Retirement System
County Employees Retirement Fund
Kansas City Firefighters Retirement System
Transportation and Highway Patrol Employees Retirement System
Department of Revenue

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